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Qz.02423

PRIME MINISTER

30 May 1980 Mandate: Revised Guidelines

BACKGROUND

1. You have convened an ad hoc meeting at 3 pm on 22 January to discuss with the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and the Minister of Agriculture the line Lord Carrington should take at the resumed discussion on 25 January of the draft guidelines on the four outstanding mandate issues. You have agreed that Sir Michael Butler should also be present.

2. You will no doubt wish to base the discussion on the Foreign and Commonwealth Secretary's minute of 20 January and the accompanying Note by Officials setting out the present position on the four points and the options now open to the United Kingdom. The main issues for decision are set out in paragraphs 21 and 22 of the official Note. Ministers may also need to consider the text of a possible note of reservation by the United Kingdom on the lines of the draft suggested in my minute to Mr Coles of today's date.

3. The meeting is likely to agree that the draft guidelines on the control of agricultural expenditure and Mediterranean agriculture (paragraph 21 (i)) are tolerable as part of a more general package, and that our efforts should therefore be devoted to resisting attempts by others to weaken the present texts. There should



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also be little difficulty in reaching agreement on the changes to be sought in the budget text (paragraph 21 iii-v).

4. On milk, and its relationship to the budget guidelines, the meeting may need to resolve significant differences of view. Whereas all the Ministers concerned are likely to agree that the present milk text is deficient in important respects and should be improved if possible, the Minister of Agriculture may argue that failure to secure either a reversion to the Lancaster House text in Annex A to the Note or the amendments set out in paragraph 21 (ii) should create a break point for the United Kingdom. He may be expected to contend that we have already given ground, albeit provisionally, on the other agricultural texts and that he could not justify further concessions on milk unless they form part of a complete price package with some compensatory gains for UK farmers plus a successful budget settlement. In short, if the changes we want to make to the milk text prove unnegotiable he may want the United Kingdom to withhold assent to the guidelines as a whole even at the cost of failing to agree a satisfactory text on the budget.

5. In his minute of 20 January, the Foreign and Commonwealth Secretary argues on the other hand that a failure to settle the guidelines now would be likely to hold up the negotiations on the budget and reduce our chances of making effective use of the leverage provided by the price fixing negotiations. He



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fears that a breakdown on 25 January would be blamed on the UK, would bring the momentum of the mandate negotiations to a premature halt, and would put in jeopardy the progress we have already made on the budget chapter.

6. The Chancellor of the Exchequer will attach importance to getting the budget text right on degressivity and to holding on to the improvements we have already won in this text. But he may consider that the UK would be unlikely to lose what it has gained on the budget even if there were no agreed guidelines, and that there is accordingly no need to pay for the progress that has been achieved on the budget by making further concessions on milk.

7. The first major question for Ministers to decide is therefore whether a failure to agree guidelines, and thus to discharge the remit which the European Council gave to Foreign Ministers last November, would weaken our chances of negotiating an acceptable settlement on the budget. Given the primacy of our budget objectives, this in turn calls for a judgement on whether those objectives are more likely to be secured by moving forward to the crucial negotiations on figures within agreed guidelines (with acceptable wording on degressivity) or by sticking on milk, abandoning the guidelines, and pursuing our aims outside an agreed framework. Would a row now with our partners, as opposed to the inevitable conflict later on when we get to figures and the price fixing, help or hinder the continuing process of wearing down the opposition to a decent settlement on the budget?



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Are the possible concessions on milk intrinsically unacceptable or might we be ready to trade them in the price settlement? If so, would any major damage be done to British interests if we decided to accept them now in order to hold the budget guidelines together?

8. The second major question only arises if Ministers decide to continue the search for agreement on guidelines. But, if that were the decision, it would be important to establish how best we could protect the UK against charges of bad faith if the UK were later obliged to stop the implementation of the Mandate conclusions in general because the others would not agree to an acceptable solution to our budget problem. A possible way of dealing with this problem is contained in my minute to Mr Coles of today's date.

HANDLING

9. You may wish the Foreign and Commonwealth Secretary to introduce his minute and the official Note.

10. You might then find it convenient to focus the discussion on the conclusions in paragraphs 21 and 22 of the Note, referring back as necessary to the texts and commentary in the body of the Note and its annexes.

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11. If the meeting is unable to agree on paragraph 22, you may wish to consider how the Foreign and Commonwealth Secretary should play his hand in the event of a failure to agree on guidelines on 25 January. You may consider that he should press for some alternative procedure to be agreed for taking work forward on the three chapters of the mandate, including a remit to the Commission and COREPER to prepare for further discussions on the budget in preparation for decisions at the March European Council.

12. If the meeting does agree that the UK should seek to secure agreement to guidelines, should the Foreign Secretary reserve our position on the implementation of the mandate conclusions as suggested at your meeting with him this morning?

CONCLUSIONS

13. Subject to the discussion, you may be able to conclude that the Foreign and Commonwealth Secretary should be guided at the 25 January meeting by:-

- (i) the objectives set out in paragraph 21 of the official Note; possibly supplemented by the formula in my earlier minute of 21 January to Mr Coles;
- (ii) whatever decision is reached on the relationship between the milk and the budget texts, and the procedural implications for further work on the mandate.

D.H.

D J S HANCOCK

21 January 1982